

# Weekly - First Look at the Kevin Warsh Fed

22 June 2026



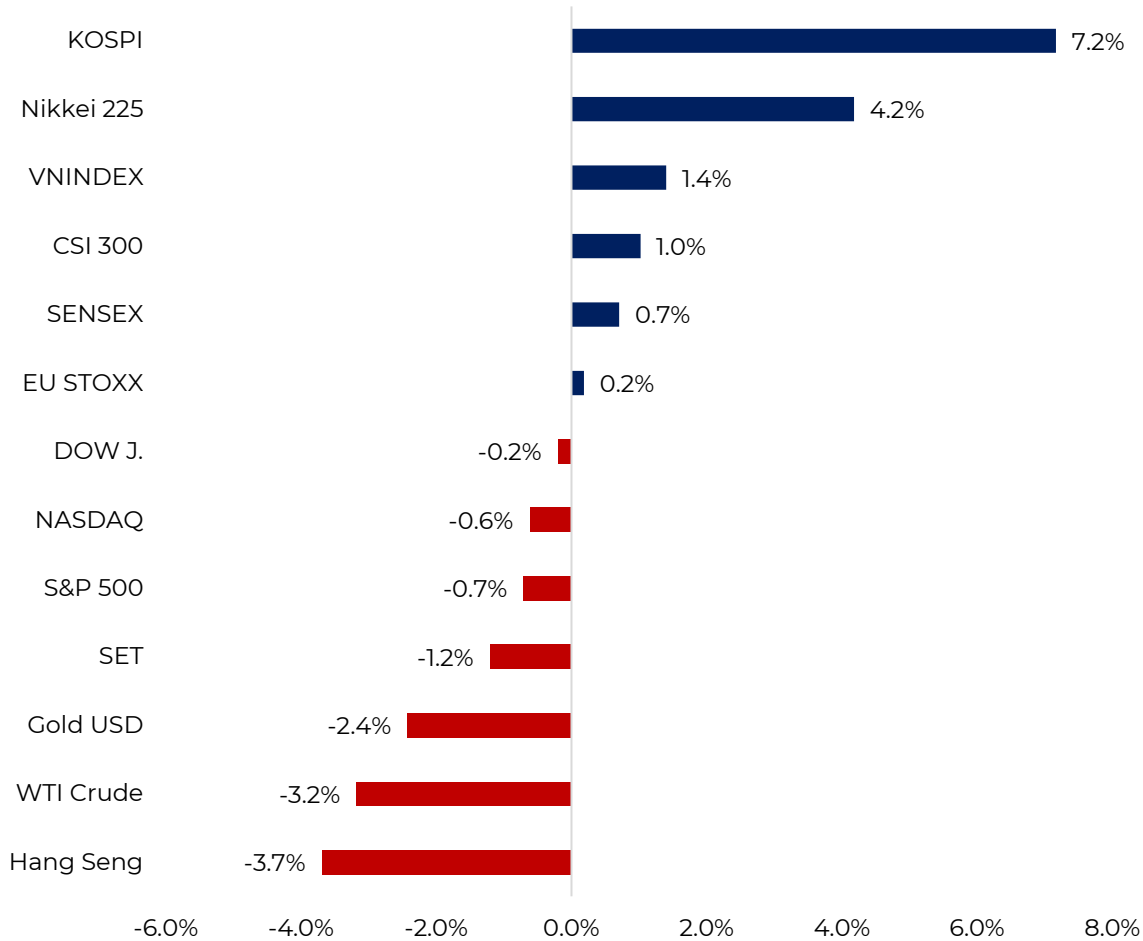
# Agenda

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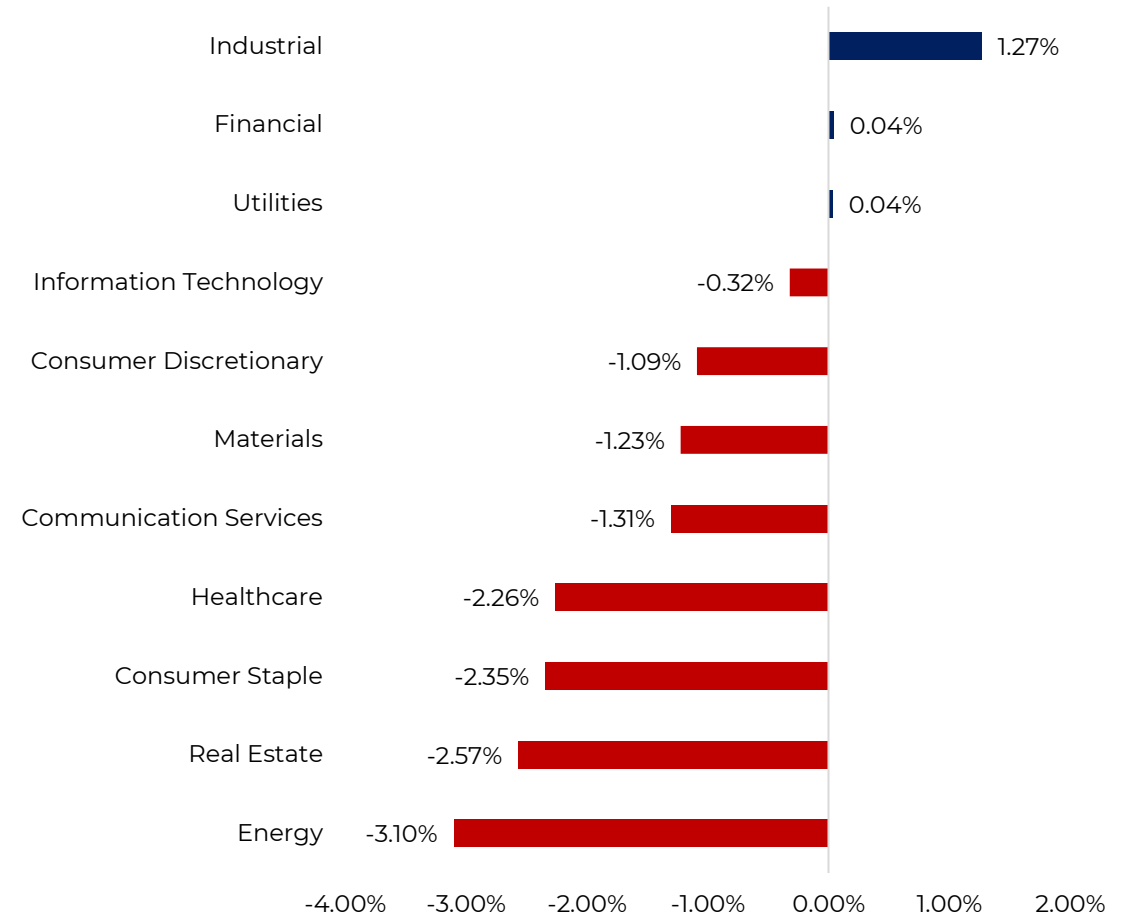
- Weekly Market Performance
- Weekly - First Look at the Kevin Warsh Fed

# Market Performance

Global Market Weekly Performance



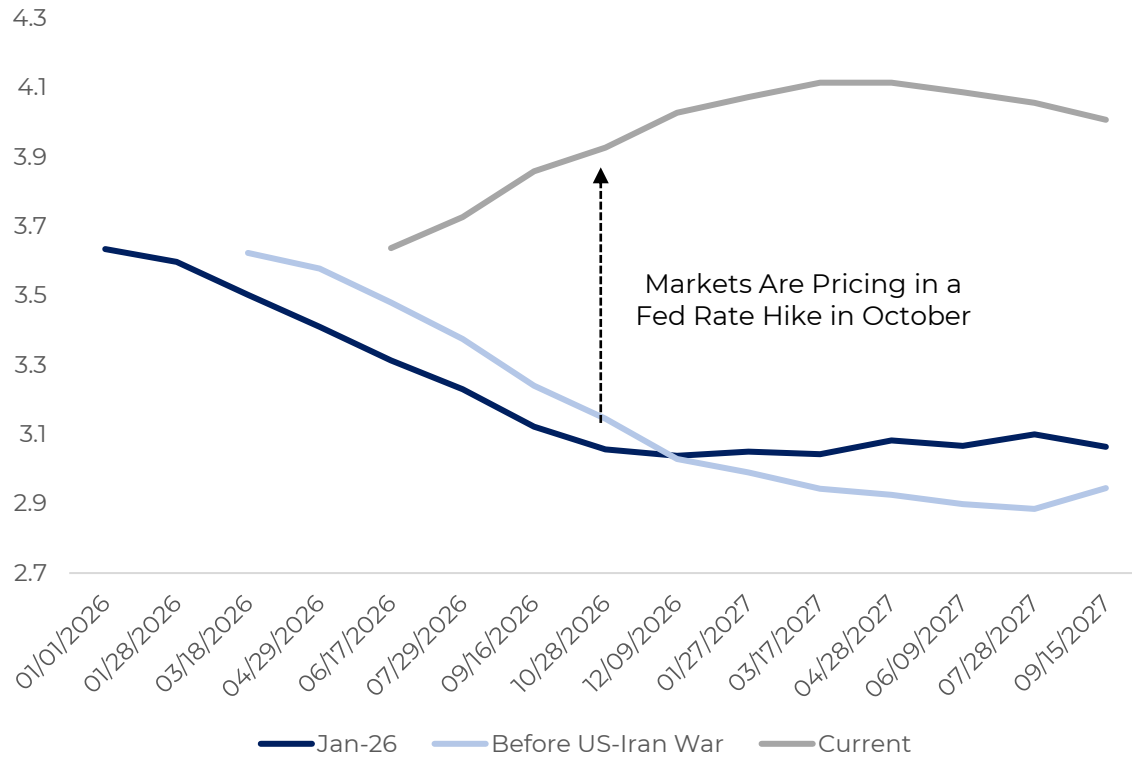
US Market Weekly Performance



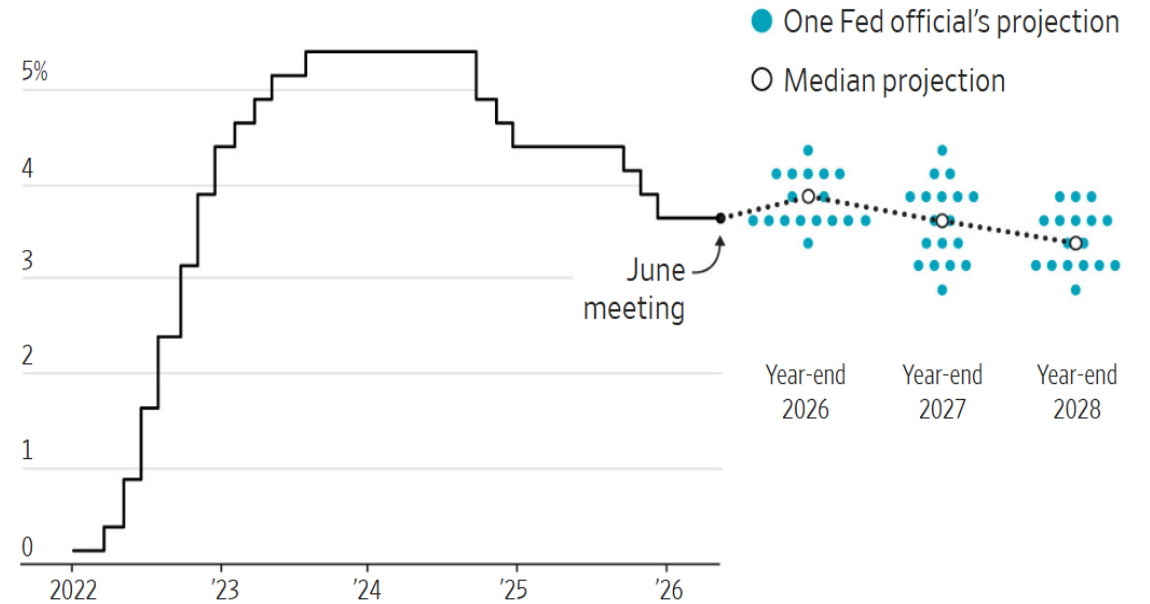
Source: Bloomberg, KGI Wealth As of 22 June 2026

# Warsh's Hawkish Debut Pushes Rate-Hike Expectations Higher

Implied Overnight Rate (%)



Federal-funds Rate with Fed Official's Projections

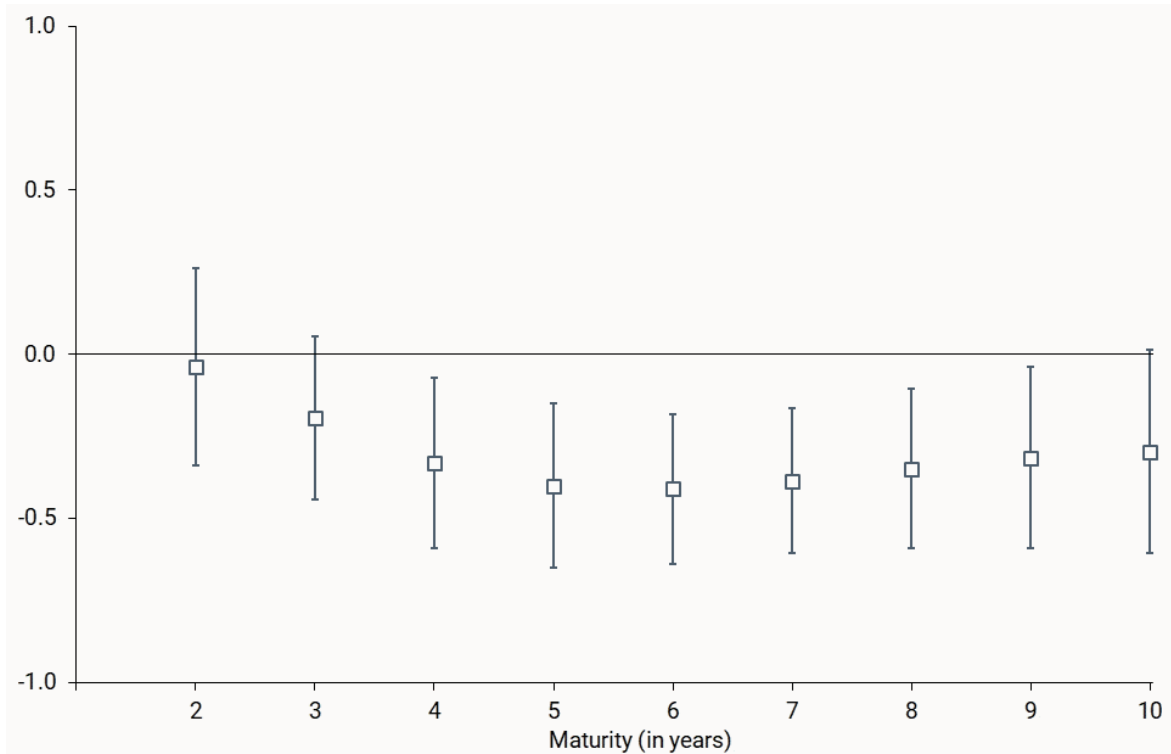


- Kevin Warsh struck a hawkish tone, reaffirming the Fed's commitment to returning inflation to the 2% target.
- The latest dot plot signals a potential rate hike in 2026.
- Markets are pricing in an ~80% probability of a Fed hike by October.

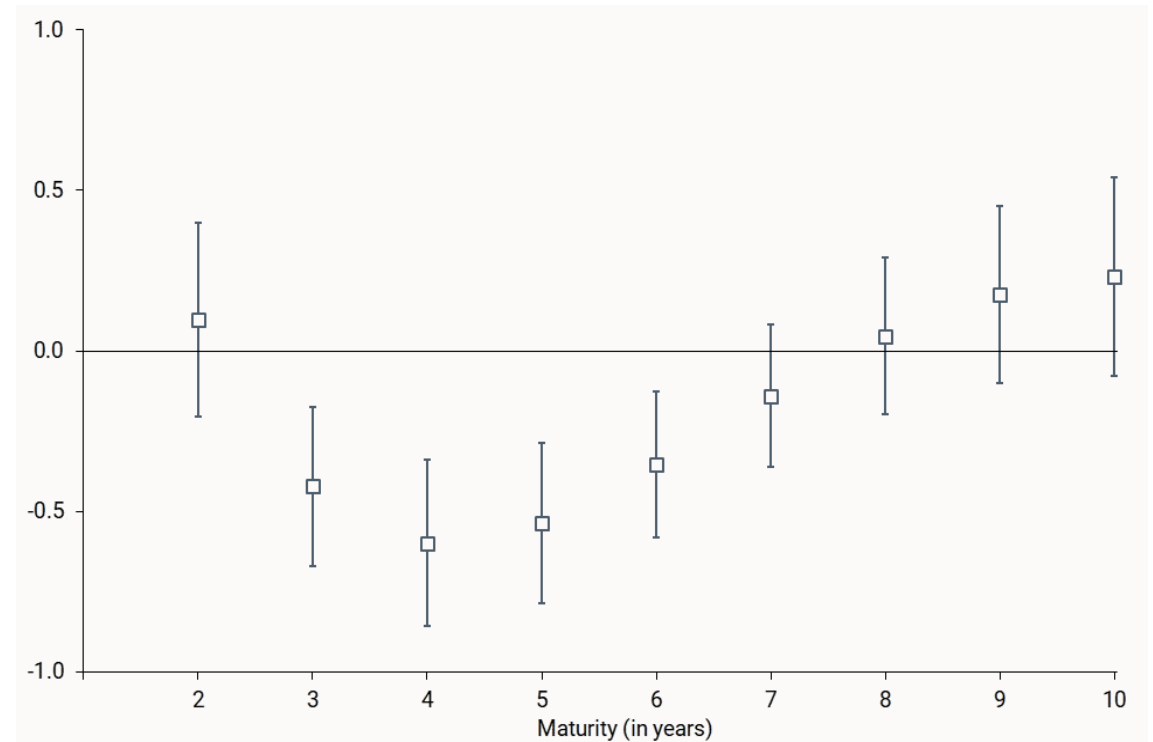
Source: Bloomberg, KGI Wealth. As of 19 June 2026

# Our Take - Kevin Warsh May Be Doing the Right Thing

Response of BEI forward rates to statement surprises



Response of BEI rates to press conference surprises

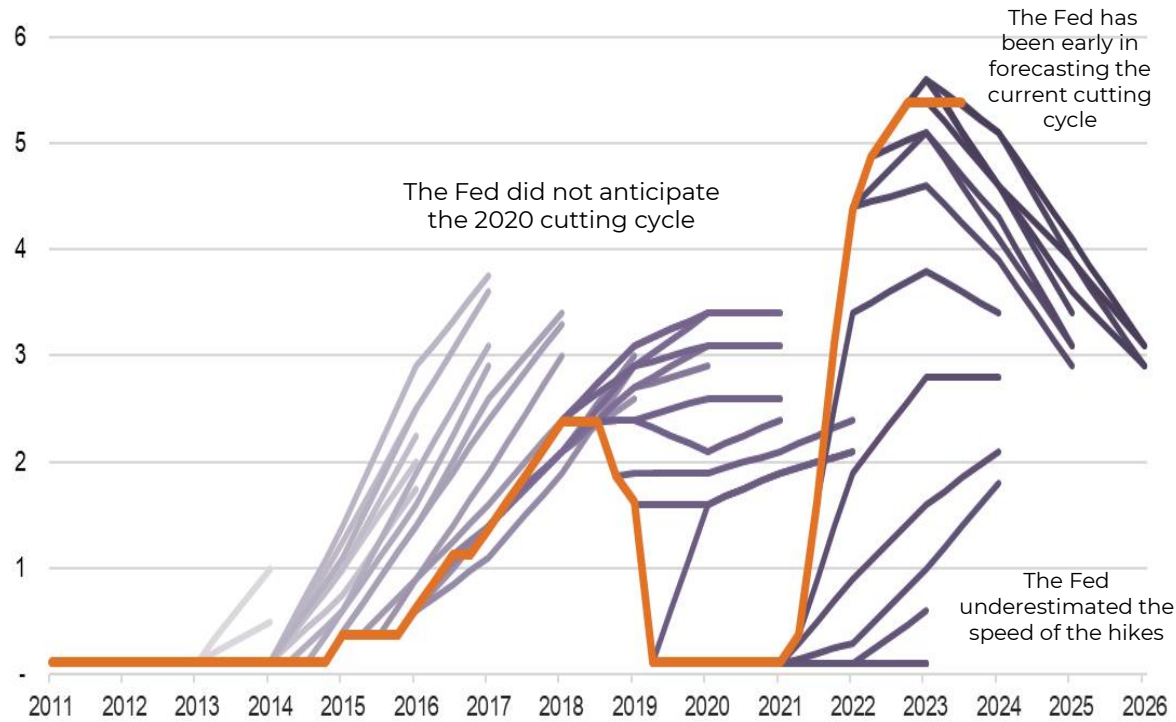


- We believe Kevin Warsh's hawkish stance was appropriate, given concerns over potential threats to Fed independence.
- Reaffirming the Fed's commitment to the 2% inflation target helps preserve policy credibility.
- The message also helps anchor inflation expectations amid persistent inflation concerns.

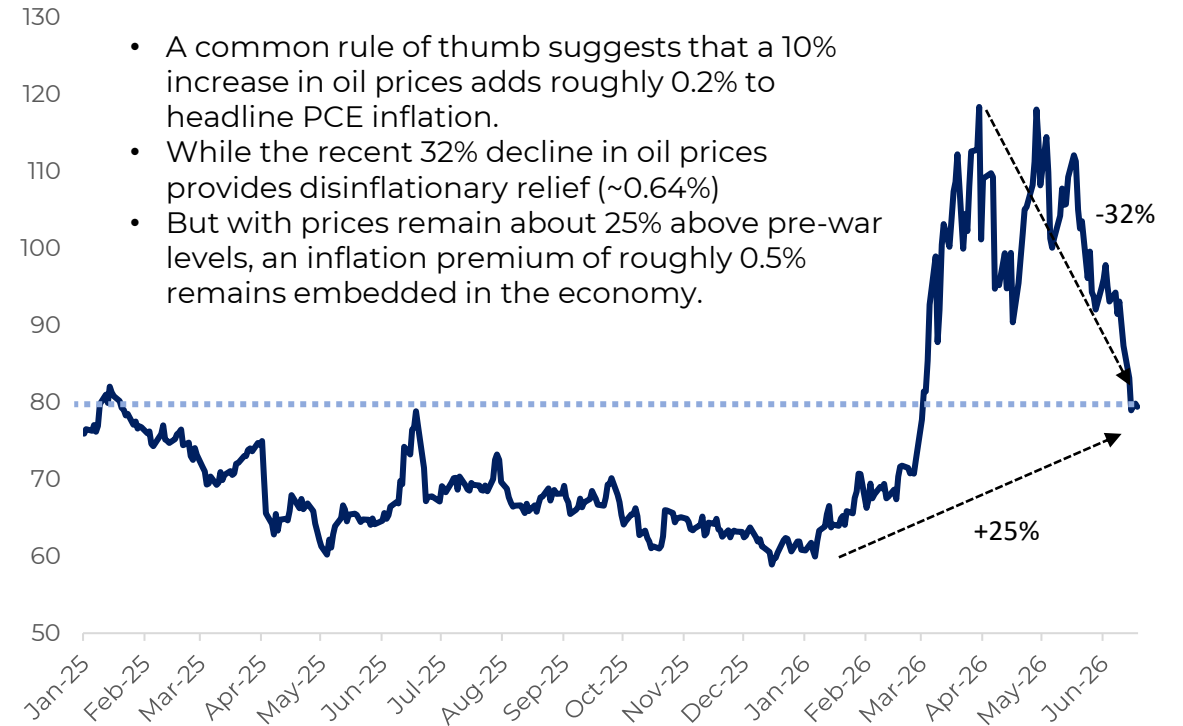
Source: Federal Reserve Bank of San Francisco, KGI Wealth

# First Reason the Fed May Hold - The Dot Plot Is Not Destiny

Actual Fed Fund Rate vs. Historical of FOMC Dot Plot



Brent Crude Oil - Price Movement Since 2025



- The dot plot has historically been an unreliable forecasting tool, and this cycle may prove no different.
- Inflation risks are already easing as oil prices decline from \$100 to \$80 per barrel,
- As a result, the need for additional Fed tightening may be less urgent than the dot plot suggests.

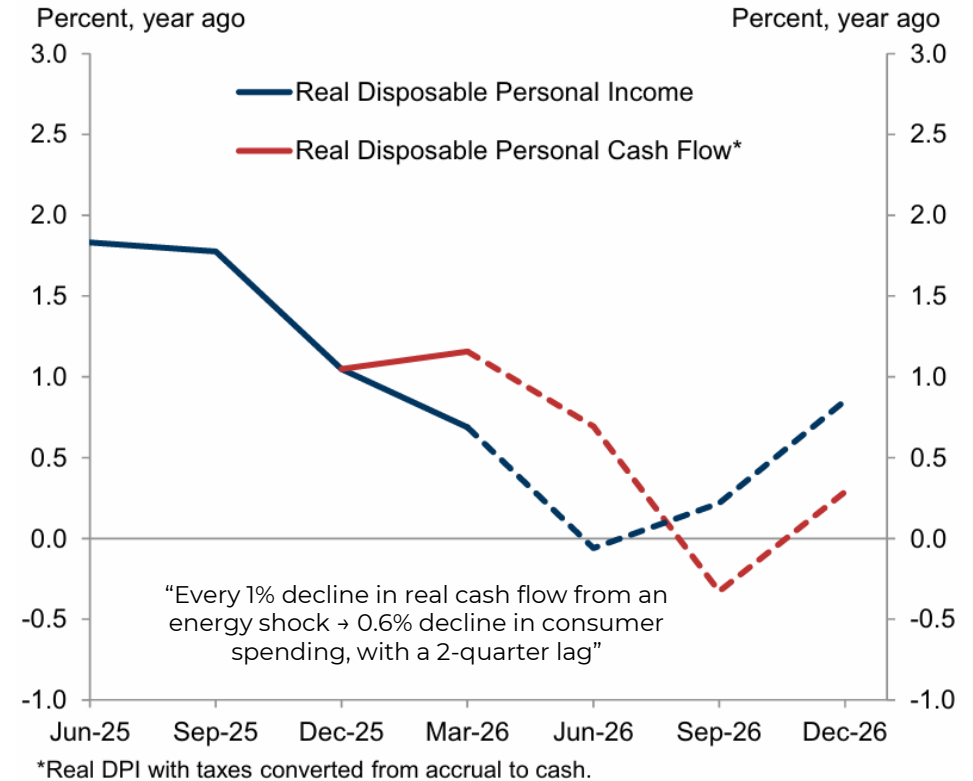
Source: Bloomberg, KGI Wealth. As of 19 June 2026

# Second Reason the Fed May Hold - Supply-Driven Inflation, Weak Demand

US Hourly Wage Growth (% YoY)



Forecast of U.S. Real Income Growth and the Impact of Tax Refunds

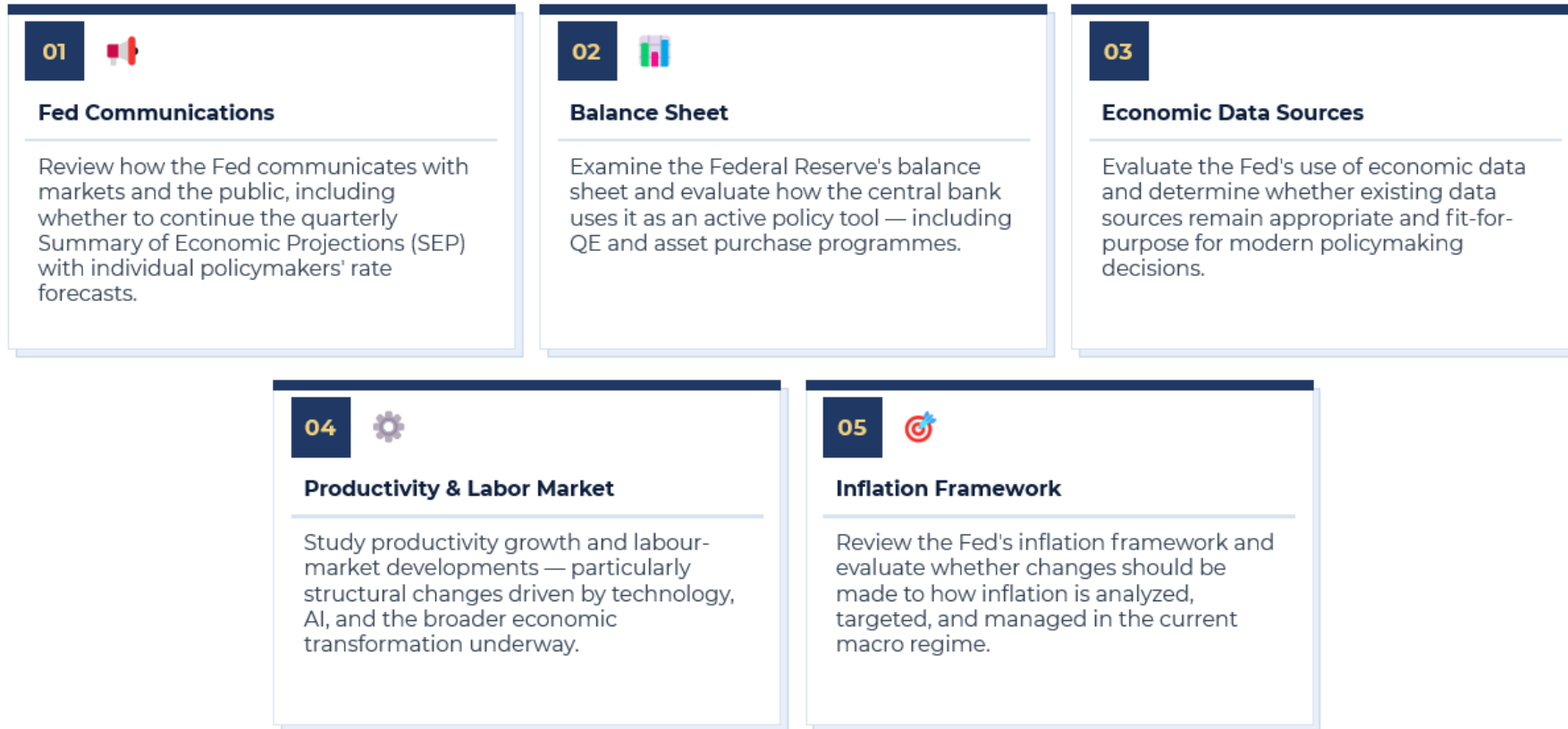


- Rate hikes are a poor tool for combating supply-driven inflation, as they do not address the root cause.
- While overall GDP growth appears healthy, it is worth noting that: 1) much of the strength is being driven by AI-related investment, and 2) Consumption may weaken as tax refund effects fade.

Source: Bloomberg, Goldman Sachs, KGI Wealth

# Third Reason the Fed May Hold - Warsh Is Unlikely to Push the Fed Toward Conflict

## The Five Key Pillars of Warsh's Fed Reform Task Force



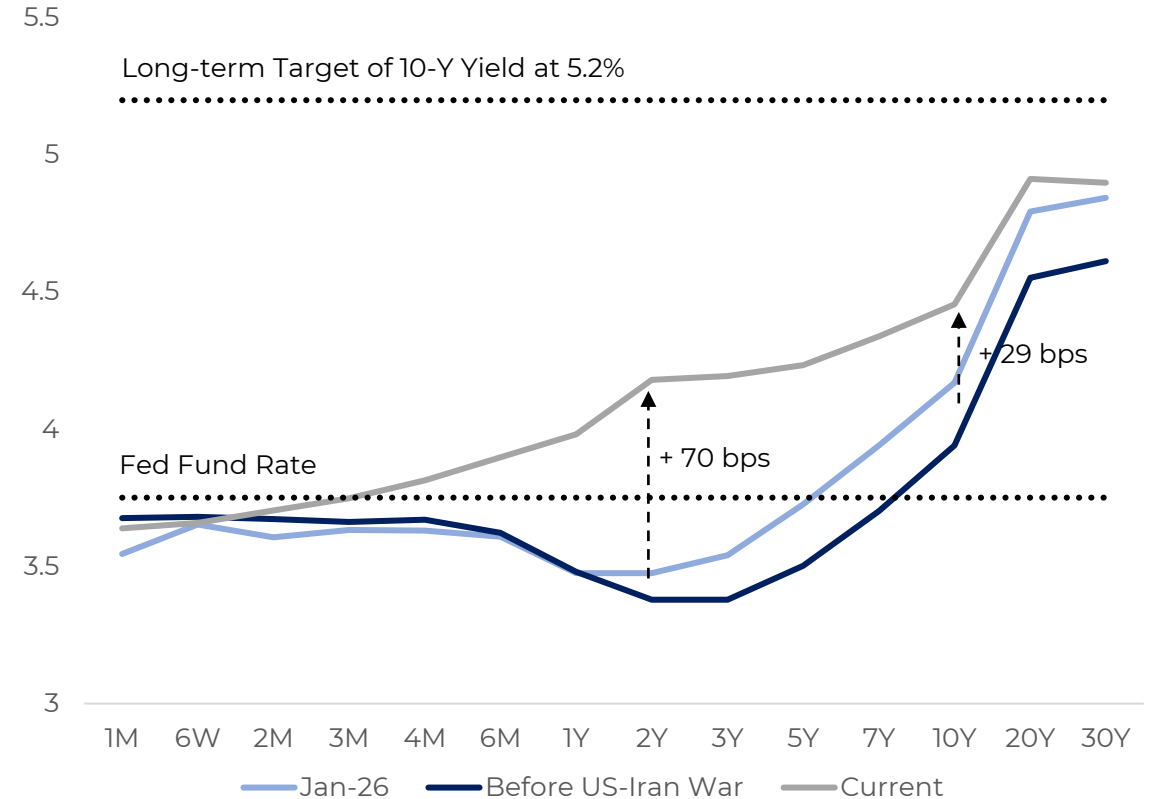
- Warsh's previous comments on (1) AI's disinflationary impact, (2) quantitative tightening, and (3) the Fed's inflation framework suggest he may be less inclined to pursue additional rate hikes.

# The Consequence – Higher for Longer Rates & Elevated Long-term Yield

Other Houses Interest Rate Forecasts

Bank	Current 2026 Call	Year-end FFR
Goldman Sachs	Hold	3.50–3.75%
JPMorgan	Hold	3.50–3.75%
Morgan Stanley	Hold	3.50–3.75%
BofA	Hold	3.50–3.75%
Barclays	Hold	3.50–3.75%
Deutsche Bank	Hike risk	3.75–4.00%
Citigroup	Hold	3.50–3.75%
UBS	Hold	3.50–3.75%

U.S. Yield Curve Movement



- **Consistent with our view since the beginning of the year**, we continue to expect a higher-for-longer rate environment and elevated bond yields.
- Key drivers are (1) rising term premiums and (2) inflation remaining above the Fed's target.
- As a result, we see yield curve steeper strategies as attractive in the current environment.

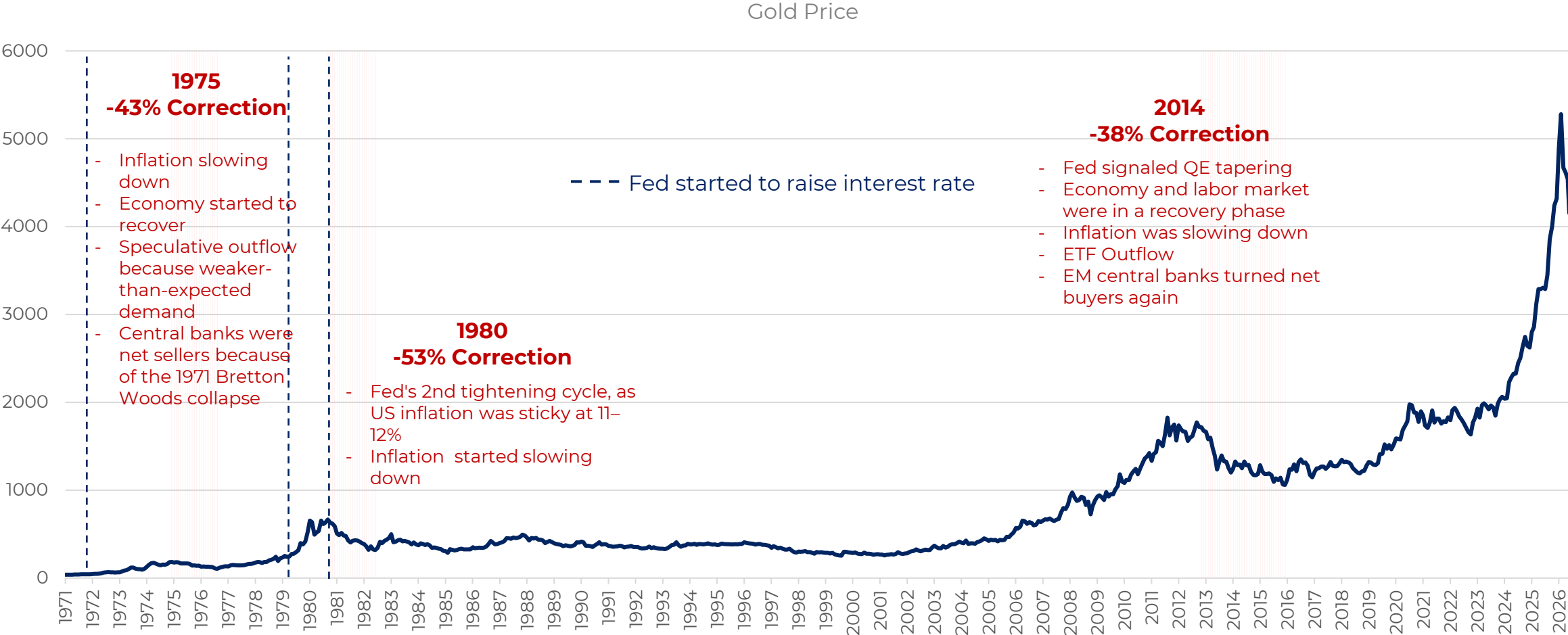
Source: Bloomberg, KGI Wealth, As of 19 June 2026

## Key Takeaway

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- The key takeaways from the FOMC meeting are: The Fed under Kevin Warsh is more hawkish than the market expected, but we believe this is the right approach due to: 1.1) Concerns about Fed independence, and 1.2) Higher inflation expectations following the Iran war.
- However, we believe the Fed will remain on hold this year because:
  - 1) The dot plot is not destiny, and lower oil prices have eased inflationary pressure.
  - 2) Signs of wage inflation remain limited, while consumer spending has further room to weaken.
  - 3) Kevin Warsh has already established a task force and may be able to persuade other FOMC members to keep rates on hold.

# Interest Rate Hikes Are Not Always Negative for Gold

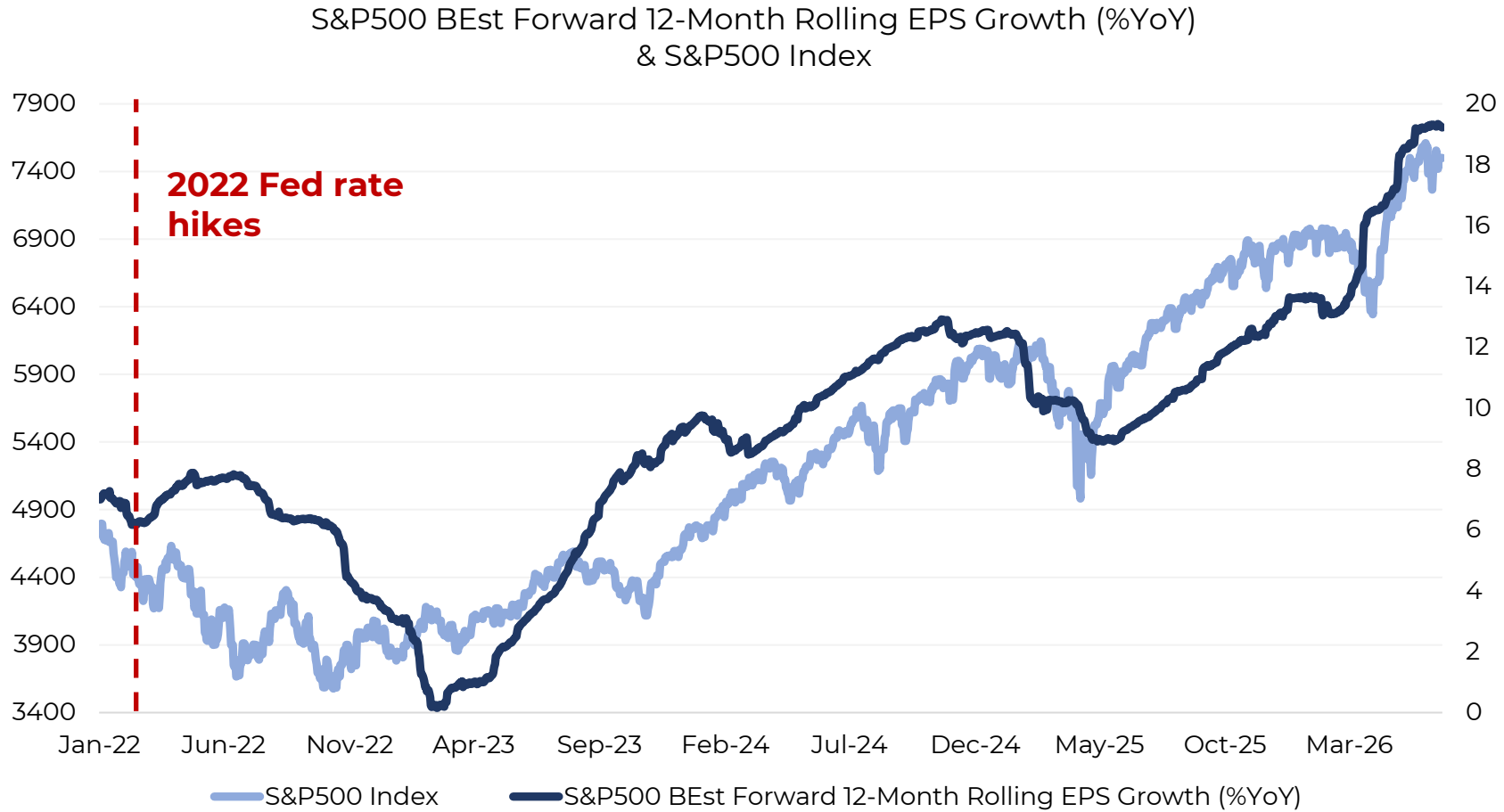


- In gold super-cycles, standalone rate hikes rarely trigger major corrections in gold prices.
- A sustained decline in gold typically requires both easing inflation concerns and a strengthening economy.

Source: Bloomberg, KGI Wealth



# Equities Have Earnings Support, Unlike in 2022

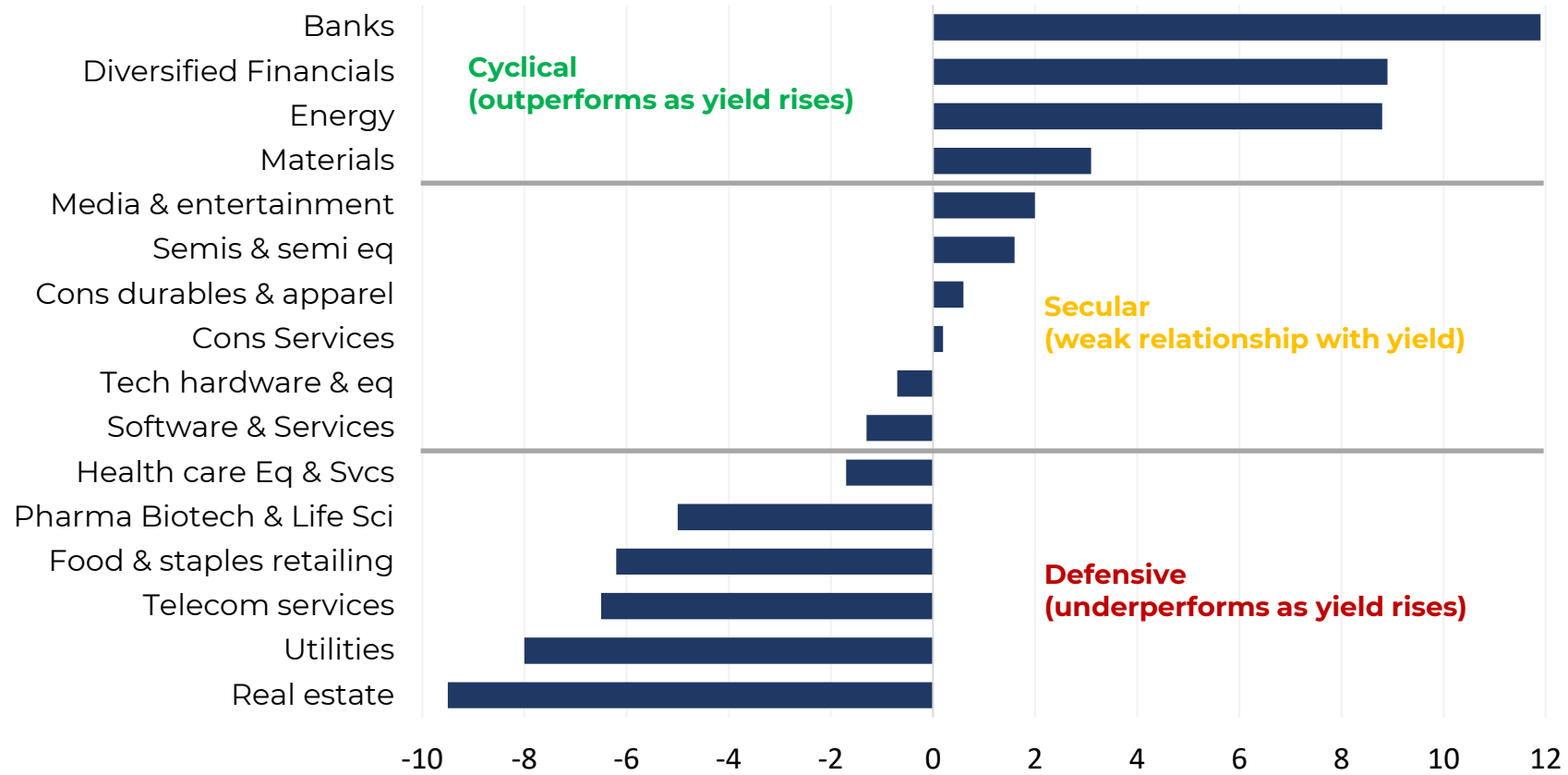


- A Fed rate hike alone is unlikely to trigger a bear market
- 2026 equity performance remains largely earnings-driven.

Source: Bloomberg; Data as of 22 June 2026

# Not All Sectors Feel the Same Impact

Beta of monthly excess returns vs MSCI USA Index to 10-Y US Treasury nominal yield (last 10 years)

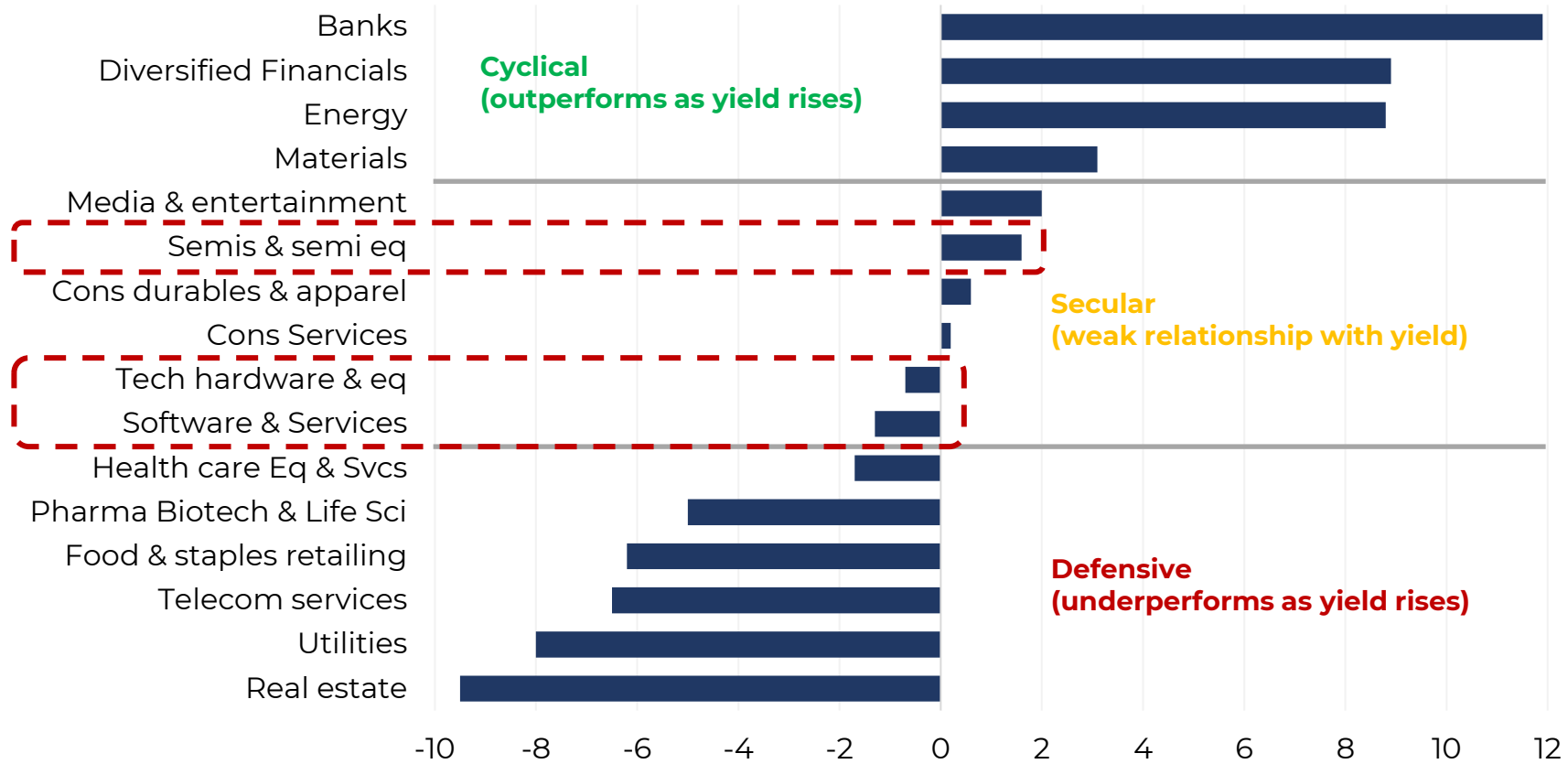


- However, there is still an impact, which varies by sector.

Source: Datastream Refinitiv and Schroders (Data as at 31 August 2021)

# Tech Stocks Diverge in Impact

Beta of monthly excess returns vs MSCI USA Index to 10-Y US Treasury nominal yield (last 10 years)



- Tech can be divided into subsectors which our main call “semiconductors & cybersecurity” remain resilient.

Source: Datastream Refinitiv and Schroders (Data as at 31 August 2021)

# Tech Reaction: Semis Resilient, Software Vulnerable

% Return the Day After the June 2026 FOMC Meeting

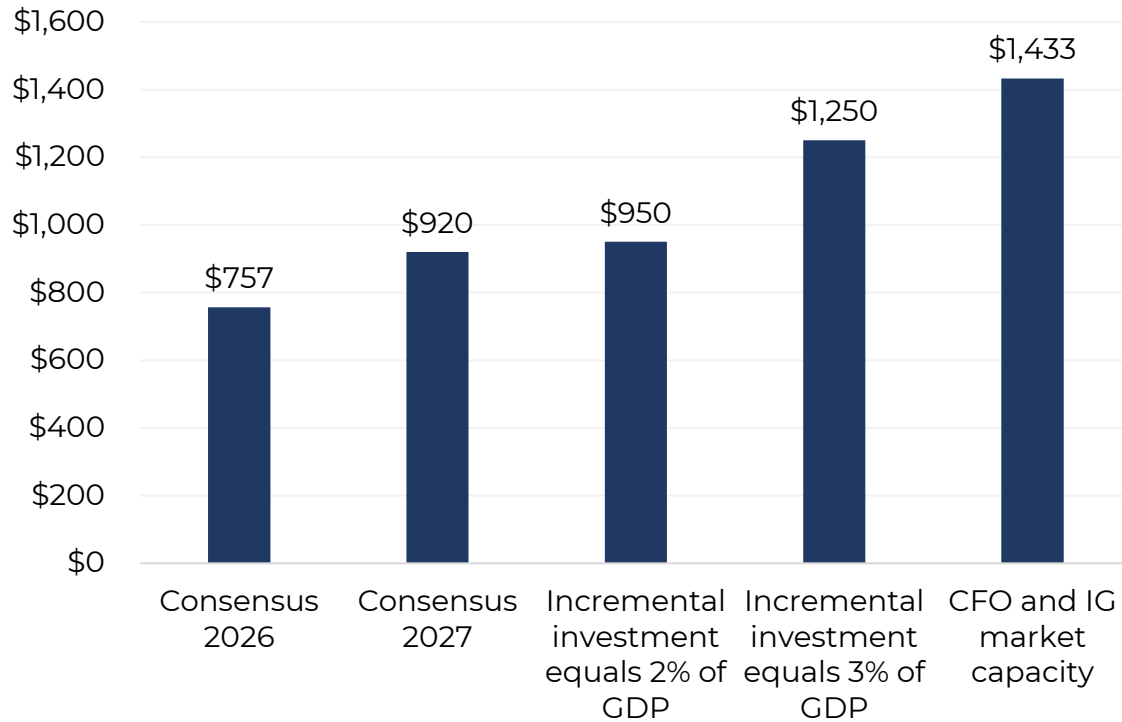
Semis	NVDA	-1.33%
	AVGO	4.30%
	AMD	1.02%
	MU	2.20%
Cybersecurity	PANW	0.80%
	CRWD	0.51%
	FTNT	-1.96%
	NET	-1.78%
Software	CRM	-4.14%
	ADBE	-5.33%
	NOW	-5.77%
	APP	-6.93%

- Semiconductors held up best after the Fed's hawkish tone.
- Cybersecurity names roughly mixed/neutral.
- Software was clearly the most rate-sensitive group, posting broad, sharp declines.

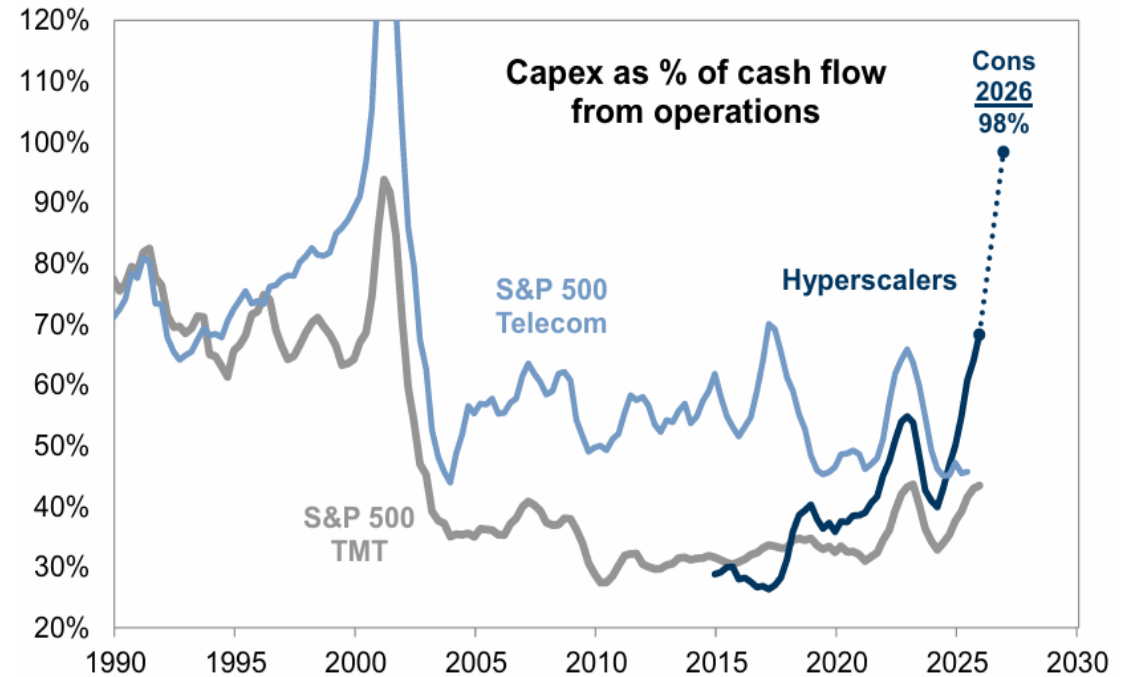
Source: S&P Ratings, Apollo Chief Economist. \*\* RR = Recurring Revenue.

# Semiconductors: Tailwind From CapEx Cycles

2027 AI hyperscaler CapEx Scenarios (\$ billion)



CapEx as % of CFO



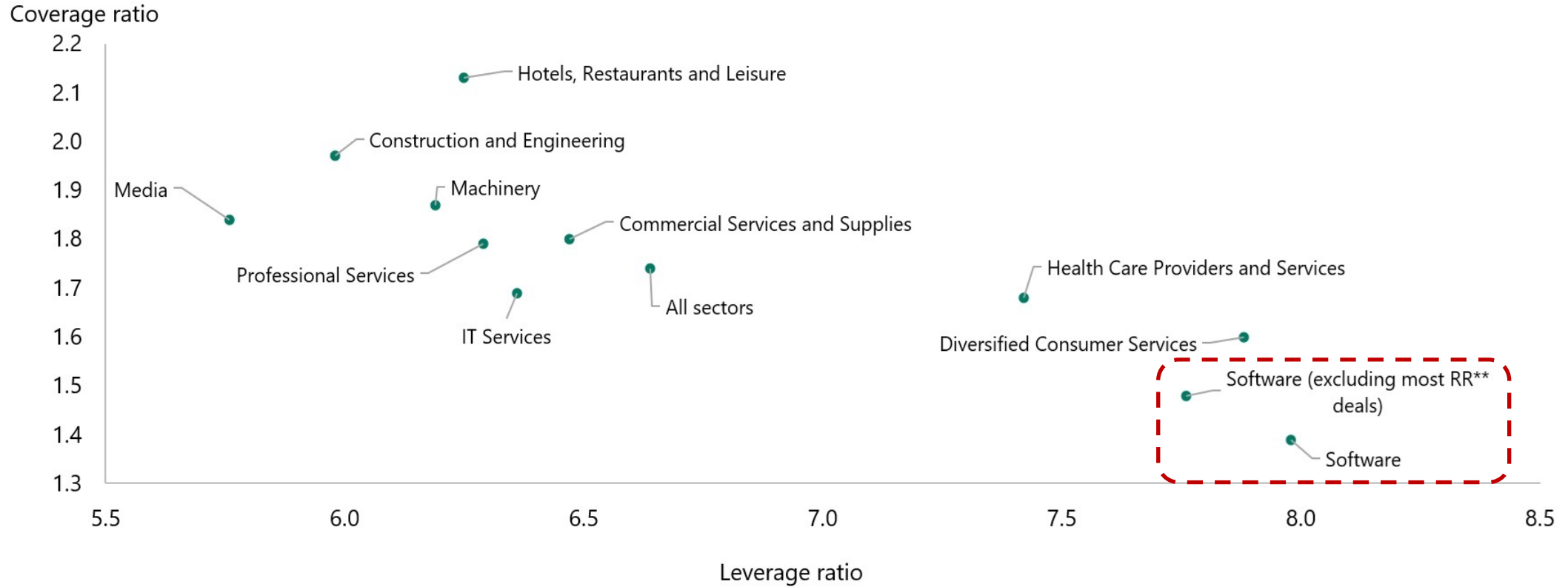
- While Semis may be sensitive to de-rating from higher discount rate, the impact is mostly absorbed by CapEx cycle.

- Hyperscaler CapEx still mostly funded by CFO, not debt — leaving room to spend.

Source: Compustat, FactSet, Goldman Sachs Global Investment Research.

# Software: Leverage Meets Disruption

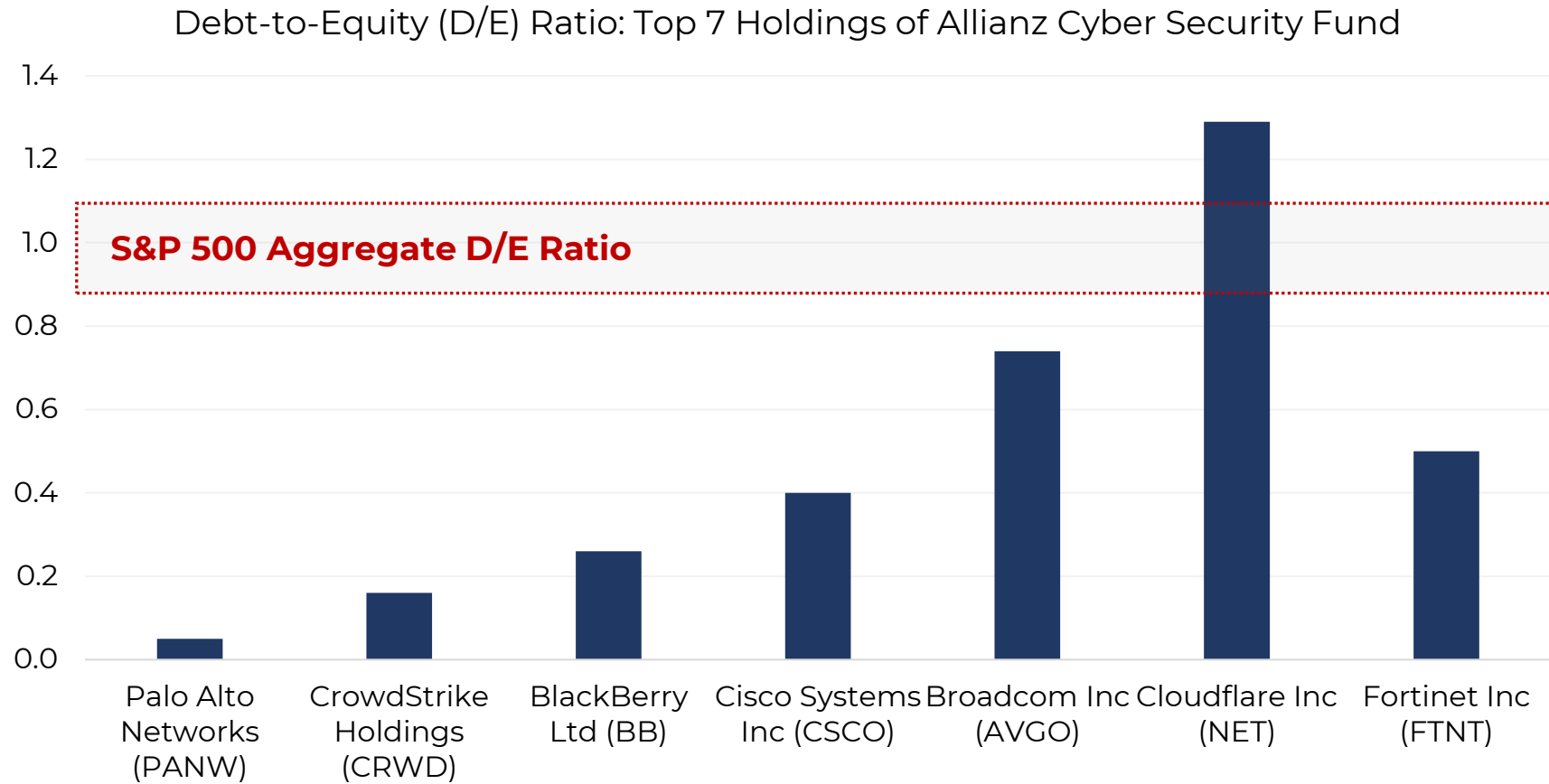
Leverage vs. coverage ratio by sectors (2025)



- High leverage leaves software stocks, particularly those facing AI disruption risk, vulnerable to margin compression

Source: S&P Ratings, Apollo Chief Economist. \*\* RR = Recurring Revenue.

# Cybersecurity: Mixed Impact, Different Risk Levels

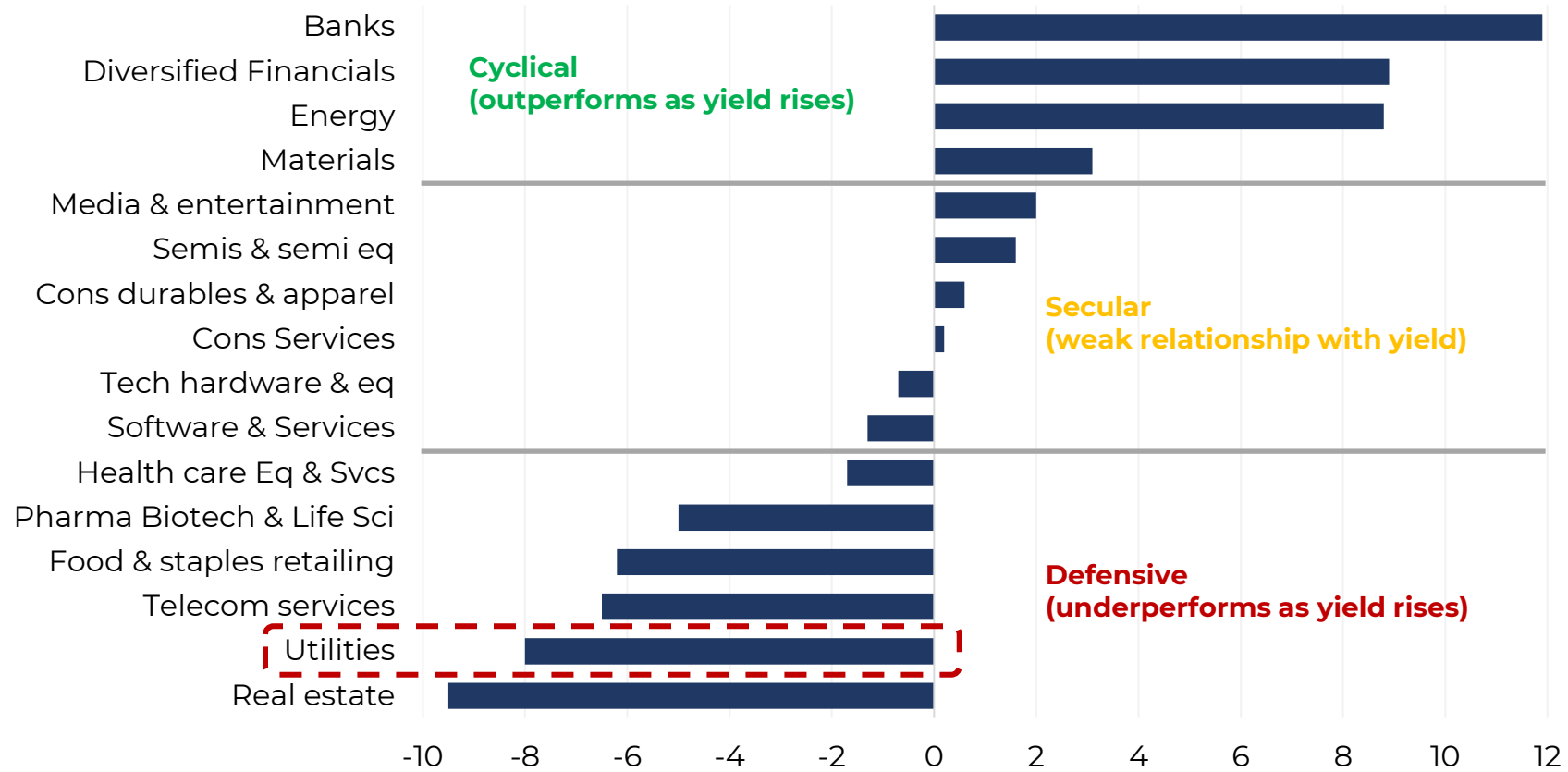


- The impact on cybersecurity varies by leverage
- Selectivity is key – favor strong balance sheets and market leaders

Source: Macrotrend. Data as of 30 April 2026.

# Utilities: Sensitive to Rising Yields in Short-Run

Beta of monthly excess returns vs MSCI USA Index to 10-Y US Treasury nominal yield (last 10 years)

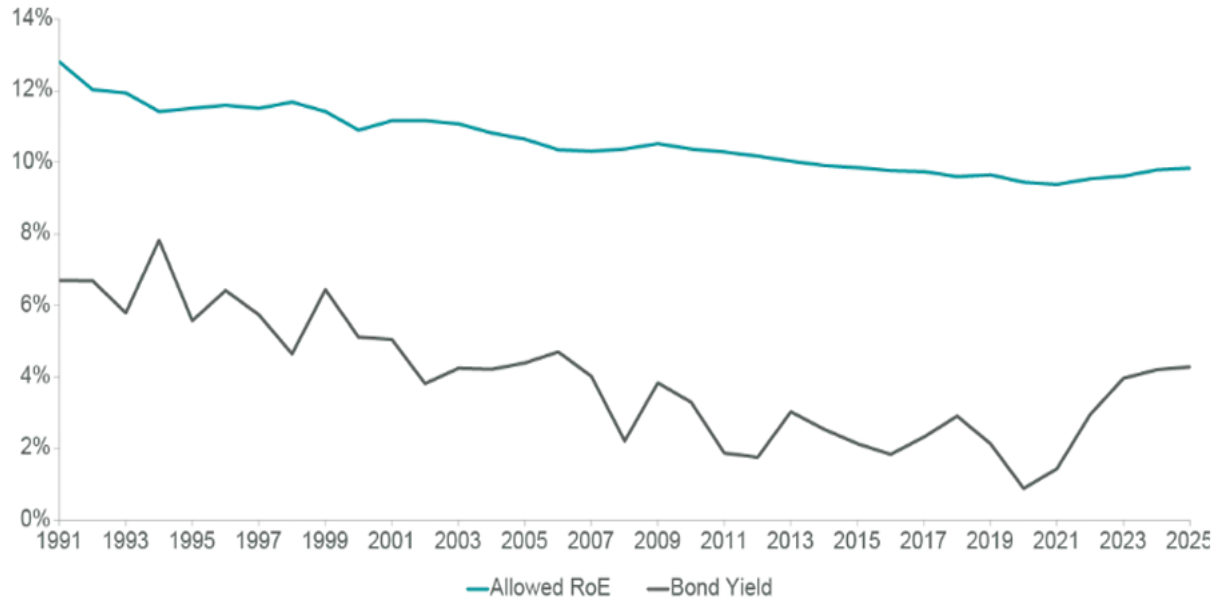


- Utilities are sensitive to interest rates in the short run, but can stabilize or rally once the peak rate is anticipated and priced into the market

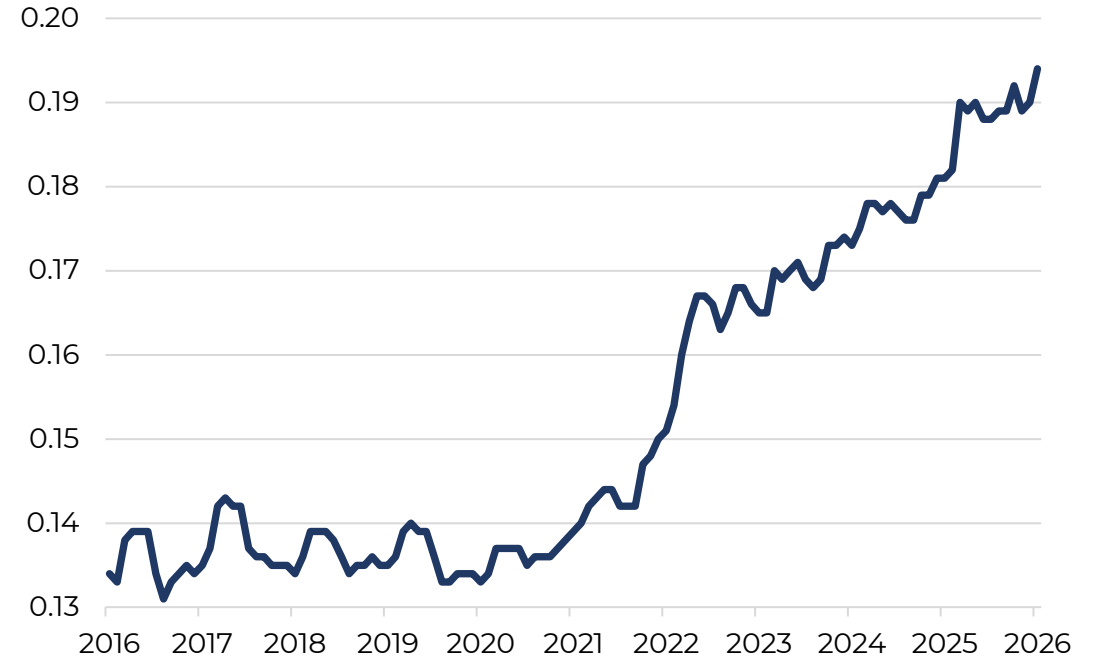
Source: Datastream Refinitiv and Schroders (Data as at 31 August 2021)

# Utilities: Cost Pass-Through as a Buffer

Allowed ROEs vs. US 10-Y Yield



Average Price: Electricity per Kilowatt-Hour in U.S. City

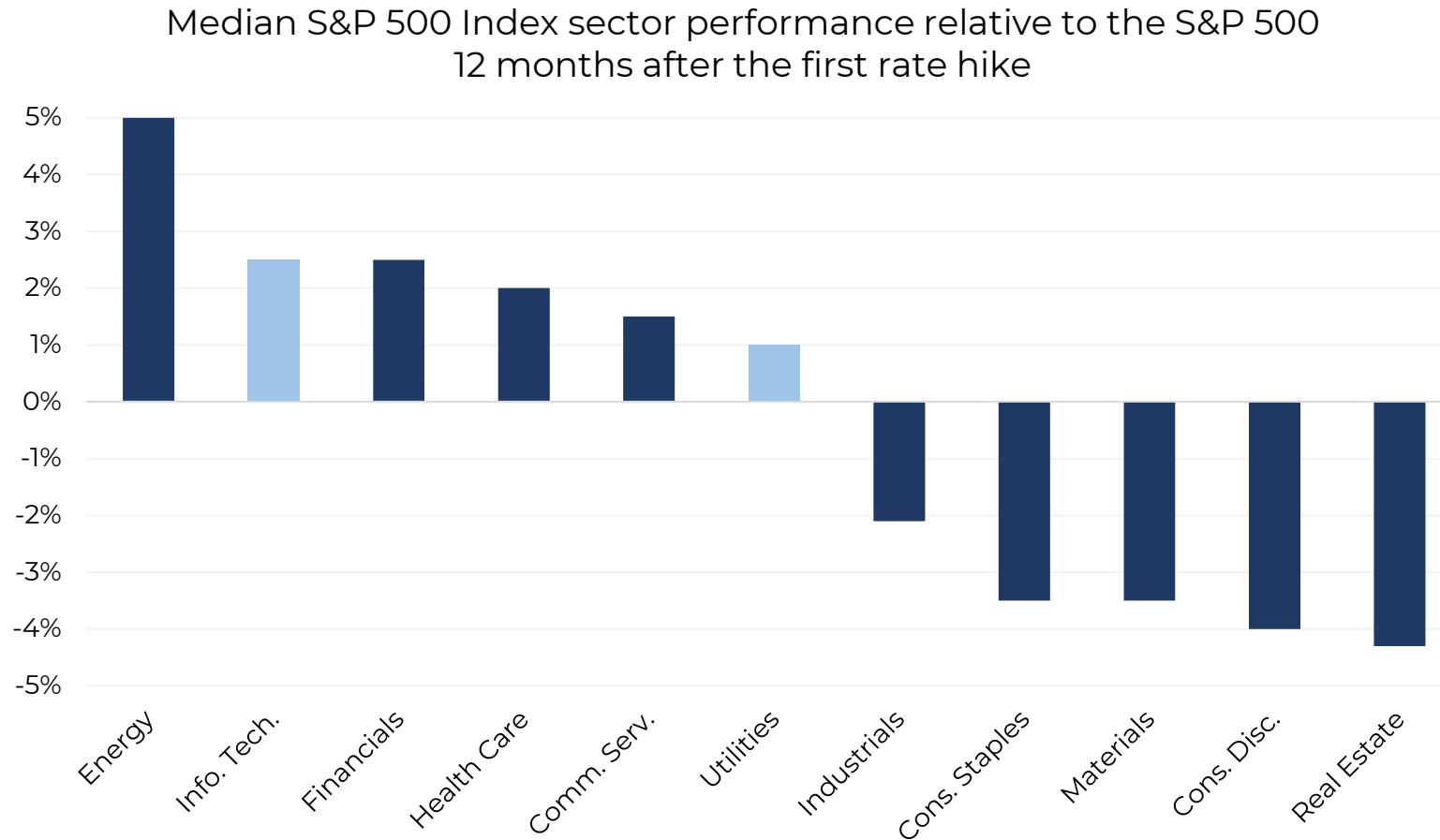


- Government-regulated allowed ROEs show high positive correlation with interest rates, indicating strong cost pass-through

- Electricity prices remain on the rise as AI data center demand surges

Source: Franklin Templeton, FRED.

# Performance Holds Up Over Longer Horizon



- After 12 months of the first rate hike cycle, both tech and utilities stocks have historically bounced back

Source: Charles Schwab, Ned Davis Research.

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